

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

ST. CLAIR HOUSING COMMISSION

Financial Statements

December 31, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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John C. DiPiero, P.C.

Certified Public Accountant

P. O. Box 378
Hemlock, Michigan 48626
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Board of Commissioners
St. Clair Housing Commission
400 South Third Street
St. Clair, Michigan 48079

Independent Auditor's Opinion

I have audited the financial statements listed in the Table of Contents of the St. Clair Housing Commission as of and for the year ended December 31, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments* as of January 1, 2004. This results in a change in the format and content of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the St. Clair Housing Commission as of December 31, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 20, 2005 on my consideration of the St. Clair Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Certified Public Accountant

June 20, 2005

As management of the St. Clair Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the St. Clair Housing Commission's financial activities for the FYE 12/31/04. This discussion and analysis letter of the St. Clair Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities. The accompanying Financial Data Schedule reports these results in more detail, program by program. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" - activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

St. Clair Housing Commission Funds:

Low Rent Public Housing: Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

Capital Fund Program: Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

Section 8 Housing Choice Voucher Program: Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 12/31/04:

	<u>FYE 12/31/04</u>	<u>FYE 12/31/03</u>	<u>Change</u>
Public Housing Operating Subsidy	57,743	50,074	7,669
Capital Fund Program Grants	148,858	76,134	72,724
Sec. 8 Voucher Subsidy	<u>157,085</u>	<u>157,188</u>	<u>(103)</u>
Total	363,686	283,396	80,290

The subsidy for Public Housing increased by approximately 15%. The subsidy for Section 8 remained relatively stable. The substantial increase in the Capital Fund Program was due to the fact that work projects during FYE 12/31/04 progressed along at a much more rapid pace than the prior year, thus utilizing more of our Capital Fund Program funding in FYE 12/31/04 than in FYE 12/31/03.

The following represents changes in the Asset section of the Balance Sheet:

	<u>FYE 12/31/04</u>	<u>FYE 12/31/03</u>	<u>Change</u>
Cash & Investments	34,693	70,870	(36,177)
Total Current Assets, net of inter-program (due from)	230,917	254,352	(23,435)
Fixed Assets, Net of Depreciation	620,679	524,162	96,517
Total Liabilities, net of inter-program (due to)	74,080	93,699	(19,619)
Total Equity/Net Assets	777,516	684,815	92,701

- Cash and Investments decreased because the pace of our Capital Fund Program (CFP) project exceeded the available CFP funds, so we had to "borrow" from our Operating Fund reserves until the new year's CFP funding is released. The decrease in Total Current Assets is also linked to this timing issue.
- Fixed Assets increased by \$151,686; this increase represents one project that, because of the cost, utilized several years' worth of Capital Fund Programs. We replaced all the windows in our building with energy efficient windows. The total cost of this project was through 12/31/04 was \$148,858. As of 12/31/04, the project was still in progress. The project was completed in 2005. Although Fixed Assets increased by \$151,686, this was than offset by depreciation charges of \$55,169, resulting in the net increase stated in the above table.
- The decrease in Liabilities is primarily due to the fact that at 12/31/03 we had accrued a total of \$54,937 in payroll and benefits; that number was reduced to \$15,580 at 12/31/04. This decrease was somewhat offset by lesser increases in other liabilities.
- Total Net Assets (Equity) increased primarily due to the increase in Fixed Assets

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

Statement of Revenues, Expenses, and Changes in Net Assets

	<u>FYE 12/31/04</u>	<u>FYE 12/31/03</u>	<u>Per Cent Change</u>
Revenues :			
Tenant Revenue	160,641	153,670	4.5%
Other Revenue	<u>8,423</u>	<u>8,234</u>	2.3%
Total PHA generated Revenue	169,064	161,904	4.4%
Operating Subsidies	214,828	207,262	3.7%
Capital Fund Program Grants	<u>148,858</u>	<u>76,134</u>	95.5%
Total Revenue	532,750	445,300	19.6%
Expenses :			
Administrative	67,013	36,842	81.9%
Tenant Services	1,650	2,698	-38.8%
Utilities	47,867	45,180	5.9%
Maintenance	69,501	76,723	-9.4%
Employee Benefits	46,279	52,498	-11.8%
General	10,294	53,945	-80.9%
Extraordinary Items	1,577	8,360	-81.1%
Casualty Losses			
Housing Assistance Payments	140,699	139,755	0.7%
Depreciation	<u>55,169</u>	<u>54,671</u>	0.9%
Total Expenses	440,049	470,672	-6.5%
Net Increase (Decrease)	92,701	(25,372)	-465.4%

Revenues :

St. Clair Housing Commission's primary revenue sources are subsidies and grants received by HUD. For FYE 12/31/04, revenue generated by the Commission accounted for \$169,064 (or 32% of total revenue), while HUD contributions accounted for \$363,686 (or 68% of total revenue). Investment Income decreased due to both declining interest rates and fewer dollars available to invest.

Expenses :

Total Expenses for FYE 12/31/03 were \$470,672 while for FYE 12/31/04 the total was \$440,049. This represents a 6.5% decrease in our Operating Costs.

Our biggest savings came in the area of Ordinary Maintenance - Contract costs which decreased by almost 32%. Most other costs areas stayed relatively stable. It should be noted that the 12/31/03 costs included both a severance pay for the retiring director (\$42,298) in the "General Expense" section as well as the removal of her portion of Compensated Absences Liability (\$35,510) in the "Administrative Expense" section. This rare type of adjustment does somewhat distort the totals stated in those sections for FYE 12/31/03 for the purposes of comparing them the FYE 12/31/04 figures.

Budget Analysis:

A Low Rent Public Housing Operating Budget for fye 12/31/04 was presented to and approved by the Board of Commissioners. We had no reason to amend the budget during the fiscal year. Actual results were in line with budgeted amounts.

Entity-Wide Operational Highlights:

The St. Clair Housing Commission provided the following housing for low-income elderly and low-income families:

	<u>FYE 12/31/04</u>	<u>FYE 12/31/03</u>
Low Rent Public Housing	62	62
Sec. 8 Housing Choice Voucher	30	30

During FYE 12/31/04, St. Clair Housing Commission maintained a lease-up rate of 93.8% in its Public Housing Program and a lease-up rate of 99.4% in its Section 8 program. Although the overall lease-up rate for Public Housing was low by HUD standards, by July 2004 we only had one vacancy and by December we were 100% leased-up.

During FYE 12/31/04, our Capital Fund Program work projects included:

- Senior building: We replaced all windows with energy efficient windows. Our former windows were very old and posed constant leaking problems.

Commission's Position

Although the Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget, we feel that we are both financially and operationally in a strong position to continue to provide safe, sanitary, and decent housing to our residents.

Questions or comments concerning this Management Discussion and Analysis may be directed to:

Lorena Loren, Executive Director
400 S. Third Street
St. Clair, MI 48079

ST. CLAIR HOUSING COMMISSION
Combined Statement of Net Assets
December 31, 2004

ASSETS

C-3068

CURRENT ASSETS

Cash	\$	34,693	
Accounts Receivable-Other		7,904	
Investments		177,418	
Prepaid Expenses & Other Assets		10,902	
Interprogram- Due from		<u>10,900</u>	
Total Current Assets	\$		241,817

NON CURRENT ASSETS

Land	\$	30,000	
Buildings & Improvements		898,980	
Furniture, Equipment- Dwellings		39,418	
Furniture, Equipment- Administrative		32,325	
Leasehold Improvements		627,219	
Accumulated Depreciation		<u>(1,007,263)</u>	
Total Non Current Assets			<u>620,679</u>

<u>TOTAL ASSETS</u>	\$	<u>862,496</u>
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ST. CLAIR HOUSING COMMISSION
Combined Statement of Net Assets
December 31, 2004

LIABILITIES & NET ASSETS

C-3068

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$	20,422	
Accrued Liabilities		15,580	
Accrued Compensated Absences		1,564	
Tenants Security Deposit		14,193	
Other Current Liabilities		8,242	
Interprogram- Due to		<u>10,900</u>	
<u>Total Current Liabilities</u>	\$		70,901

NONCURRENT LIABILITIES

Accrued Compensated Absences		<u>14,079</u>	
<u>Total Liabilities</u>	\$		84,980

NET ASSETS:

Investment in Fixed Assets net of Related Debt	\$	620,679	
Retained Earnings		<u>156,837</u>	
<u>Total Net Assets</u>			<u>777,516</u>

<u>TOTAL LIABILITIES & NET ASSETS</u>	\$	<u>862,496</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

ST. CLAIR HOUSING COMMISSION
Combined Statement of Revenues, Expenses, and Changes in Net Assets
For the year ended December 31, 2004

Business Type Activities

OPERATING REVENUE

Tenant Rental Revenue	\$ 159,671
Tenant Revenue-Other	970
HUD Grants	363,686
Interest Income	3,482
Other Income	<u>4,941</u>

<u>Total Operating Revenue</u>	\$	532,750
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OPERATING EXPENSES

Administrative	\$ 89,214
Tenant Services	1,650
Utility Expenses	47,867
Ordinary Maintenance	93,579
General Expenses	<u>10,294</u>

<u>Total Operating Expenses</u>		<u>242,604</u>
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<u>Operating Income (Loss)</u>	\$	290,146
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NONOPERATING REVENUES (EXPENSES)

Extra Ordinary Maintenance	\$ (1,577)
Housing Assistance Payments	(140,699)
Depreciation Expenses	<u>(55,169)</u>

<u>Total Nonoperating (Expenses)</u>		<u>(197,445)</u>
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<u>Change in Net Assets</u>	\$	92,701
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Total Net Assets- Beginning		<u>684,815</u>
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Total Net Assets- Ending	\$	<u>777,516</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

ST. CLAIR HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended December 31, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$	160,641
Payments to Suppliers		(338,320)
Payments to Employees		(78,921)
HUD Grants		363,686
Other Receipts (Payments)		<u>8,423</u>
Net Cash Provided (Used) by Operating Activities	\$	115,509

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Purchases of Capital Assets	\$	<u>(151,686)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$	(36,177)
Balance- Beginning of Year		<u>70,870</u>
Balance- End of Year	\$	<u>34,693</u>

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES**

Net Profit or (Loss)	\$	92,701
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation		55,169
Changes in Assets (Increase) Decrease:		
Receivables (Gross)		(4,948)
Prepaid Expenses		(7,794)
Interfund Due From		(5,100)
Changes in Liabilities Increase (Decrease):		
Accounts Payable		14,095
Accrued Liabilities		(35,143)
Security Deposits		2,561
Accrued Liabilities-Other		(1,132)
Interfund Due To		<u>5,100</u>
Net Cash Provided by Operating Activities	\$	<u>115,509</u>

The Accompanying Notes are an Integral part of the Financial Statements

ST. CLAIR HOUSING COMMISSION
Notes to Financial Statements
December 31, 2004

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

St. Clair Housing Commission, St. Clair, Michigan, (Commission) was created by ordinance of the city of St. Clair. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 59-1	Low rent program	62 units
MI 28-E052	Section 8 Existing	30 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above criteria, there are no component units.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all the Commission's activities.

A change in the fund financial statements to focus on the major funds.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided that they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.

Notes to Financial Statements- continued

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 11,697
Savings Accounts	22,896
Petty Cash	<u>100</u>
Financial Statement Total	\$ <u>34,693</u>

Investments:

Treasury Notes	\$ <u>177,418</u>
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Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 11,697	\$	\$	\$ 11,697	\$ 11,697
Petty Cash	100			100	100
Money Market	<u>22,896</u>	<u></u>	<u></u>	<u>22,896</u>	<u>22,896</u>
Total Cash	\$ <u>34,693</u>	\$ <u></u>	\$ <u></u>	\$ <u>34,693</u>	\$ <u>34,693</u>
Investments:					
Treasury Bills	\$ <u>177,418</u>	\$ <u></u>	\$ <u></u>	\$ <u>177,418</u>	\$ <u>177,418</u>

In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Notes to Financial Statements- continued

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 30,000	\$	\$	\$ 30,000
Buildings	898,980			898,980
Furniture & Equipment-Dwellings	39,418			39,418
Furniture & Equipment-Admin	29,497	2,828		32,325
Leasehold Improvements	<u>478,361</u>	<u>148,858</u>		<u>627,219</u>
	\$ 1,476,256	\$ 151,686	\$	\$ 1,627,942
Less Accumulated Depreciation	<u>952,094</u>	<u>55,169</u>		<u>1,007,263</u>
	\$ <u>524,162</u>	\$ <u>96,517</u>	\$	\$ <u>620,679</u>

Note 4: Accrued Liabilities.

Accrued liabilities consists of the following:

Accrued Wages and Benefits	\$ <u>15,580</u>
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Note 5: Pension Plan

The Commission participates in a pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department of Management and Budget, Bureau of Retirement Systems. The pension covers all full time employees and requires a minimum contributions by the employee. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual report.

Note 6 :Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 4,100,000
General Liability	1,000,000
Dishonest Employees	25,000
Worker's Compensation and other riders:	
Coverage's required by the State of Michigan	

Notes to Financial Statements- continued

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 8: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

St. Clair Housing Commission

31-Dec-04

MI052

Combining Balance Sheet		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	ASSETS:				
	CURRENT ASSETS:				
	Cash:				
111	Cash - unrestricted	25,876	8,817	-	34,693
112	Cash - restricted - modernization and development	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits				-
100	Total cash	25,876	8,817	-	34,693
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects				-
122	Accounts receivable - HUD other projects	-	3,585	-	3,585
124	Accounts receivable - other government				-
125	Accounts receivable - miscellaneous				-
126	Accounts receivable- tenants - dwelling rents	-			-
126.1	Allowance for doubtful accounts - dwelling rents				-
126.2	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- current				-
128	Fraud recovery				-
128.1	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable	4,319			4,319
120	Total receivables, net of allowances for doubtful accounts	4,319	3,585	-	7,904
	Current investments				-
131	Investments - unrestricted	177,418			177,418
132	Investments - restricted				-
142	Prepaid expenses and other assets	10,902			10,902
143	Inventories				-
143.1	Allowance for obsolete inventories				-
144	Interprogram - due from	10,900	-	-	10,900
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	229,415	12,402	-	241,817
	NONCURRENT ASSETS:				
	Fixed assets:				
161	Land	30,000			30,000
162	Buildings	898,980			898,980
163	Furniture, equipment & machinery - dwellings	39,418	-	-	39,418
164	Furniture, equipment & machinery - administrative	32,325	-	-	32,325
165	Leasehold improvements	478,361		148,858	627,219
166	Accumulated depreciation	(1,007,263)	-	-	(1,007,263)
160	Total fixed assets, net of accumulated depreciation	471,821	-	148,858	620,679
171	Notes and mortgages receivable - non-current				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	471,821	-	148,858	620,679

	LIABILITIES AND EQUITY:				
	LIABILITIES:				
	CURRENT LIABILITIES				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	19,652	770		20,422
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	15,580	-		15,580
322	Accrued compensated absences	1,564			1,564
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		-		-
332	Accounts Payable - PHA Projects				
333	Accounts payable - other government	-	-	-	-
341	Tenant security deposits	14,193			14,193
342	Deferred revenues	-	-		-
343	Current portion of Long-Term debt - capital projects				-
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	-			-
346	Accrued liabilities - other	8,242			8,242
347	Inter-program - due to	-	10,900	-	10,900
310	TOTAL CURRENT LIABILITIES	59,231	11,670	-	70,901
	NONCURRENT LIABILITIES:				
351	Long-term debt, net of current- capital projects				-
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	14,079			14,079
350	TOTAL NONCURRENT LIABILITIES	14,079	-	-	14,079
300	TOTAL LIABILITIES	73,310	11,670	-	84,980
	EQUITY:				
501	Investment in general fixed assets				-
	Contributed Capital:				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	471,821	-	148,858	620,679
	Reserved fund balance:				-
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	156,105	732		156,837
513	TOTAL EQUITY	627,926	732	148,858	777,516
600	TOTAL LIABILITIES AND EQUITY	701,236	12,402	148,858	862,496

Proof of concept

- - - -

Depreciation Add Back

St. Clair Housing Commission

31-Dec-04

MI052

Combining Income Statement		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #				-	
	REVENUE:	-	-		
703	Net tenant rental revenue	159,671	-		159,671
704	Tenant revenue - other	970			970
705	Total tenant revenue	160,641	-	-	160,641
706	HUD PHA grants	57,743	157,085	148,858	363,686
708	Other government grants				-
711	Investment income - unrestricted	3,335	147	-	3,482
712	Mortgage interest income				-
714	Fraud recovery				-
715	Other revenue	4,941	-	-	4,941
716	Gain or loss on the sale of fixed assets	-			-
720	Investment income - restrictec				-
700	TOTAL REVENUE	226,660	157,232	148,858	532,750
	EXPENSES:				
	Administrative				
911	Administrative salaries	31,046	10,400	-	41,446
912	Auditing fees	2,600	-		2,600
913	Outside management fees				-
914	Compensated absences	1,950			1,950
915	Employee benefit contributions- administrative	19,701	2,500	-	22,201
916	Other operating- administrative	17,532	3,485	-	21,017
	Tenant services				
921	Tenant services - salaries				-
922	Relocation costs	-			-
923	Employee benefit contributions- tenant services				-
924	Tenant services - other	1,650			1,650
	Utilities				
931	Water	5,337			5,337
932	Electricity	22,768			22,768
933	Gas	19,762			19,762
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	37,475			37,475
942	Ordinary maintenance and operations - materials & other	10,188		-	10,188
943	Ordinary maintenance and operations - contract costs	21,838		-	21,838
945	Employee benefit contributions- ordinary maintenance	24,078			24,078
	Protective services				

952	Protective services- other contract costs				-
953	Protective services - other				-
955	Employee benefit contributions- protective services				-
	General expenses				
961	Insurance premiums	10,294			10,294
962	Other General Expenses	-			
963	Payments in lieu of taxes	-			-
964	Bad debt - tenant rents				-
965	Bad debt- mortgages				-
966	Bad debt - other				-
967	Interest expense				-
968	Severance expense	-			-
969	TOTAL OPERATING EXPENSES	226,219	16,385	-	242,604
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	441	140,847	148,858	290,146
971	Extraordinary maintenance	1,577			1,577
972	Casualty losses - non-capitalized	-			-
973	Housing assistance payments		140,699	-	140,699
974	Depreciation expense	55,169		-	55,169
975	Fraud losses				-
976	Capital outlays- governmental funds	-			-
977	Debt principal payment- governmental funds				-
978	Dwelling units rent expense				-
900	TOTAL EXPENSES	282,965	157,084	-	440,049
	OTHER FINANCING SOURCES (USES)				
1001	Operating transfers in	-			-
1002	Operating transfers out	-		-	-
1003	Operating transfers from/to primary government			-	-
1004	Operating transfers from/to component unit				-
1005	Proceeds from notes, loans and bonds				-
1006	Proceeds from property sales				-
1010	TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	(56,305)	148	148,858	92,701
MEMO account information					
1101	Capital contributions				
1102	Debt principal payments- enterprise funds				-
1103	Beginning equity	-			-
1104	Prior period adjustments and equity transfers				-
1105	Changes in compensated absence liability balance (in the GLTDAG)				-
1106	Changes in contingent liability balance (in the GLTDAG)				-
1107	Changes in unrecognized pension transition liability (in the GLTDAG)				-
1108	Changes in special term/severance benefits liability (in the GLTDAG)				-
1109	Changes in allowance for doubtful accounts - dwelling rents				
1110	Changes in allowance for doubtful accounts - other				-
1112	Depreciation "add back"				-
1113	Maximum annual contributions commitment (per ACC)				
1114	Prorata maximum annual contributions applicable to a period of less than twelve months				
1115	Contingency reserve, ACC program reserve				

ST. CLAIR HOUSING COMMISSION
Report on Compliance Based on an Audit
of Financial Statements Performed in
Accordance with Government Auditing Standards
December 31, 2004

I have audited the financial statements of St. Clair Housing Commission as of and for the year ended December 31, 2004, and have issued my report dated June 20, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As a part of obtaining reasonable assurance about whether St. Clair Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, I do not express such an opinion. However, the results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs: 04-1 and 04-2.

Internal Control over Financial Reporting

In planning and performing my audit, I considered St. Clair Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. I did not note any matters relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect St. Clair Housing Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe no reportable conditions or material weaknesses exist.

This report is intended solely for the information and use of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

June 20, 2005

ST. CLAIR HOUSING COMMISSION
Status of Prior Audit Findings
December 31, 2004

The prior audit of the St. Clair Housing Commission for the period ended December 31, 2003, contained one audit finding, the actions taken by the Commission are as follows:

- 1) Tenant Accounting Discrepancies- Low Rent Program; the discrepancies noted in the prior audit have been corrected satisfactorily.

ST. CLAIR HOUSING COMMISSION
Schedule of Findings and Questioned Cost
December 31, 2004

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Housing Assistance Program		X
Capital Fund Projects		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
Reportable condition(s) noted	_____ Yes	_____ X _____ No
Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No

Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	_____ Yes	_____ X _____ No
Reportable condition(s) noted	_____ X _____ Yes	_____ No
Non Compliance material to financial statements noted	_____ Yes	_____ X _____ No

Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	No	None	4-1
Housing Assistance Program	No	None	4-2
Capital Fund Project	No	None	None

ST. CLAIR HOUSING COMMISSION
Schedule of Findings, Recommendations and Replies
December 31, 2004

The following finding of the St. Clair Housing Commission, for the year ended December 31, 2004, was discussed with the Director, Ms. Lorena Loren, in an exit interview conducted June 20, 2005.

Finding 4-1:

No Credit Card Policy

The Commission has a credit card, but no credit card policy in place; Michigan P. A. 266 of 1995 (MCL 129.241) requires the local unit adopt a credit card policy.

Recommendation

I recommend the Commission adopt a credit card policy to be in compliance with State law.

Reply

We adopted a credit card policy on June 21, 2005.

Finding 04-2:

Tenant Accounting Discrepancies-Section 8 Housing Choice Vouchers

A test of 5 Section 8 Housing Choice Vouchers files revealed the following discrepancies:

- 1 file lacked third party verification
- 3 files had the wrong utility allowance

Recommendation

The Section 8 program consist of 30 Vouchers; the above discrepancies represents a large percentage of the files. I would recommend the Commission review all files to insure the proper verifications are in place and the correct utility allowances have been used.

Reply

The difference with the utility allowances occurred because of the use of two different utility allowance charts. The St. Clair Housing Commission adopted the new chart as of 01/01/2005. For any recertification that were due on or about January/February of 2005, that was already completed, the Director did not go back through the file to re-evaluate the utility allowance needs of those individuals, the prior utility allowance chart was used. If the recertification were not completed at the time of the utility allowance chart change took effect, the new utility allowance chart was used for their recertification.

It is also noted that if a Section 8 client was allocated a utility allowance, from the previous year, for a certain appliance, such as a gas or electric stove, and during the year, changed out that stove, from one to the other, the Housing Commission would have no way of keeping track of such changes, even though this change would effect the utility allowance that would be used for their calculations of rent subsidy.

And finally, I am still trying to correct the prior directors' ineptness for not thoroughly administering the Section 8 rental subsidy program. Our new Section 8 inspector is documenting exactly what types of utilities exists in each of our clients units, which will in turn will help me to choose the correct utility allowance to determine the correct payment for the client and the amount of subsidy to the landlord.